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# Conference Call Transcript

## PLUS - Q4 2011 Eplus Inc Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Kley Parkhurst**
*Eplus Inc - SVP, Asst. Secretary*

**Phil Norton**
*Eplus Inc - Chairman, CEO and President*

**Elaine Marion**
*Eplus Inc - CFO*

## CONFERENCE CALL PARTICIPANTS

**Matthew Spratford**
*Sidoti & Company - Analyst*

**Patrick Retzer**
*Retzer Capital - Analyst*

## PRESENTATION

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**Operator**

Good day, ladies and gentlemen, and welcome to the ePlus Inc. earnings results conference call.

(Operator Instructions).

As a reminder, this conference call is being recorded. I would now like to turn the call over to your host, Kley Parkhurst, Senior Vice President. Please go ahead.

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**Kley Parkhurst** *- Eplus Inc - SVP, Asst. Secretary*

Thank you, Molina, and thank you, everyone for joining us today. With me are Phil Norton, Chairman, President and CEO of ePlus, Elaine Marion, our Chief Financial Officer, and Erica Stoecker, our General Counsel.

I want to take a moment to remind you that the statements we make this morning that are not historical facts, may be deemed to be forward-looking statements, and are based on management's current plans, estimates, and projections. Actual or anticipated future results may vary materially due to certain risks and uncertainties detailed in the earnings release we issued yesterday, and our periodic filings with the Securities and Exchange Commission, including our Form 10-K, which should be filed on or around June 9, 2011. The Company undertakes no responsibility to update any of these forward-looking statements, in light of new information or future events. With that said, I'd like to turn the call over to Phil Norton. Phil?

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**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

Thank you, Kley. We concluded the fiscal year with solid fourth-quarter results. As customers increasingly recognize the positive return on investment from virtualization technologies, and utilized our advanced technology capabilities to deploy solutions, including cloud infrastructure and enablement. For the fiscal fourth-quarter ended March 31, 2011, revenue increased 19.7% over the prior year, and pre-tax income rose 28.9% over the year.

EPlus success has been driven by our ongoing commitment to deliver the most advanced technology offerings, with expert engineers and commitment to continuous training. We are leveraging the investments we have made in virtualization and other data center technologies to expand our offerings in the cloud, such as cloud assessment, enablement, and migration solutions. We have expanded our advanced technology offerings with the acquisitions of Interchange Technologies, Inc. and NCC Networks, Inc.

As a result, we have gained new customers, sold more to existing customers, and continued to expand the products and services we offer to meet customer demand and marketplace trends. Today ePlus is more frequently mentioned in the press. We are described as a national, fast-growing integrator. We remain committed to the core strategies such as investing in our people, acquiring new technology capabilities, and geographic locations, and improving our efficiency and delivery capabilities.

Our customers turn to us for all three, key elements of the IT infrastructure supply-chain. We provide the software and the web capabilities to procure products and services efficiently, with our OneSource and Procure+ products. We sell and service the world's leading brands of products and solutions by such partners as Cisco, HP and VMware, and we can facilitate the sale by providing financing to meet operational and capital budget requirements.

Throughout the year, we were recognized by our partners and the media for achievements in our core business. Last quarter, our notable achievements included winning the Cisco National SLED Partner of the Year, achieving Vblock Qualified Partner Status, attaining SAS 70 Type II Accreditation for our Network Operations Center Services, achieving HP PartnerONE Elite Status in Virtualization, Microsoft Unified Communications and SAP.

As a result of the rebounding IT spending, our fiscal year ended March 31, 2011, produced great results. Our revenues increased 27.5% to $863 million, as customers return to purchasing IT equipment to capture the value inherent in the latest technology, which includes virtualization, energy efficiency, and the demand for better networking capabilities as the video and collaborative technologies ramp up. Our fully diluted earnings per share rose 87.2%, to $2.82 per diluted share on a year-over-year basis, demonstrating the operating efficiency of our model, as we continue to maintain discipline, and hold the line in cost.

But at the same time, we continue to invest in the business by adding to our staff. We attracted a number of highly regarded sales and engineering resources, our ranks grew from 661 to 725 employees. During the year, we continued to be recognized by our partners and we were awarded the following, RSA SecurWorld, Growth Partner of the Year Award, HP PartnerONE SMB Elite Status, HP PartnerONE Health Elite Status, Re-Certified Gold Partner Status in the Microsoft Partner channel, Microsoft 2010 New York Metro Partner of the Year. And again, passed the Cisco Quadruple Audit, gaining four Re-Certifications for Gold Partner, Master Unified Communications Specialization, Master Security Specialization, and Managed Services Master Certification.

Acquisitions are beginning to again play an important role in ePlus strategy. This week, we announced the acquisition of NCC Networks, Inc., a security-focused solution provider, which operates a security operations center located in the metropolitan Chicago area. With the acquisition, ePlus gains information security capability to provide a wide variety of security assessments, including vulnerability assessments, wireless assessment, web application assessment, penetration testing, and remediation services. We also gained a new branch location in metropolitan Chicago, as our first Midwest location. Over in time, we intend to build a strong branch in the ePlus position.

Last November, we completed another acquisition, that of Interchange Technologies, Inc., ITI, a Tandberg Platinum Partner, with advanced expertise in audio and video communication technologies. With the acquisition, we immediately gained Tandberg Platinum Partner Status, adding to our credentials as a Cisco Telepresence Authorized Technology Provider, and a Cisco Master Unified Communications Specialist, and Cisco WebEx certified collaboration solutions partner. With the acquisition of ITI, ePlus gained the ability to provide customers a single source for a full spectrum of solutions and services in teleconferencing, audio, video, unified communications and collaboration market space to meet their diverse business communications needs.

Cisco and HP continue to be our largest partners as we sold products in fiscal year 2011, which represented approximately 43% and 16%, respectively of sales of products and services. We continue to strengthen our relationships with our key Tier 1 partners, such as IBM, Oracle Sun, VMware, Network, NetApp, and Microsoft for both vendor-specific authorizations, and for specific solution areas such as visual communications and security.

During the year, we also enhanced the senior management team and Board of Directors. In April 2010, Mark Marron, ePlus National Vice President of Sales for the past six years, was named President of ePlus Technology, and Chief Operating Officer of ePlus Inc. In July 2010, John Callies, the 34 year veteran of IBM, and most recently the General Manager of IBM Credit, joined the Board of Directors.

Changing topics to our intellectual property portfolio, on May 24, 2011, we announced that the United States District Court for the Eastern District of Virginia had entered an injunction preventing Lawson Software Inc. from certain activities relating to products that Court had previously found infringed some of our patents. Lawson has filed a motion to stay the injunction pending the appeal, which we are opposing. We cannot predict the outcome of this matter.

Looking ahead, our expanding capabilities and offerings, as well as our rising customer adoption of cloud computing, we see numerous opportunities to continue growing the business. We are well-positioned to drive growth and market share gains by strengthening our engineering capabilities and solutions set to best service our customers. With that, I would like to turn the call over to Elaine Marion, our CFO.

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**Elaine Marion** *- Eplus Inc - CFO*

Thanks, Phil. I'd like to discuss our financial results in more detail, and then we'll take questions. As Phil described, our solid momentum continued throughout the fiscal year 2011. If you have been following ePlus, you know that each of our first three fiscal quarters demonstrated the rebound of IT spending in the US, and the fourth quarter continued to show improvement.

I'd like to start by discussing our full-year results. For the year ended March 31, 2011, total revenues were $863 million, an increase of $186 million or 27.5% from the prior year. Notably, this strong growth did not come at the expense of our gross margin, as the gross margin on sales of products and services increased to 14.7%, as compared to 14.1% last year. Our ability to preserve pricing power, take advantage of vendor incentive programs, change the mix of products and the mix of products and services to higher margin sales, is indicative of the success of our business model.

Despite significant increases in legal expenses relating to our patent infringement lawsuit, net earnings increased 86.2% to $23.7 million, or $2.82 per share -- per diluted share. Given that revenues increased 27.5%, and net earnings for the year increased 86.2% with higher non-core business expenses, we are very satisfied that our operating model is scalable. And that if we continue to expand revenues, earnings should follow.

During the year, we incurred legal and other fees related to the patent infringement litigation of $10.5 million, a 101% increase over the $5.2 million spent last fiscal year. Legal fees will continue to be a -- will continue to be considerable until the matter is concluded, but we are resolved to defend our intellectual property. An additional data point is, to consider that in the prior year, we incurred a pre-tax, non-cash goodwill impairment charge of $4 million.

Looking at the fourth quarter, revenues were $211 million, an increase of $34.6 million, or 19.6%, as compared to $176.4 million in the same quarter last year. The gross margin on sales of product and services improved to 14.9%, compared to 14.2% in the fourth quarter of fiscal year 2010. The increase in total revenues for the quarter was driven by an increase in sales of product and services. The climate for IT spending continued to improve, driven by the general economic recovery, the deferral of IT spending by many customers in prior years, and the investment in new technology.

Lease revenues and fee and other income decreased to $9.9 million, compared to $10.5 million during the quarter ended March 31, 2010. This revenue category captures many elements which are highly variable, and while we experienced a decrease in these revenues, we continue to earn a solid return on our investment in leases.

Professional and other fees, salaries and benefits, and general and administrative expenses totaled 30.7 -- $30.7 million, an increase of $4.6 million or 17.6%, as compared to $26.1 million in the quarter ended March 31, 2010. Professional and other fees increased by $1.4 million compared to the prior year, primarily due to legal fees related to the patent infringement lawsuit.

Salaries and benefits expenses increased $2.5 million due to higher commissions and bonuses, as a result of the increase in sales, as well as slightly higher salary expenses. Interest and financing costs totaled $497,000, a decrease of $339,000 compared to the prior year, due to lower, non-recourse notes payable balances. At March 31, 2011, non-recourse notes payable totaled $29.6 million, a decrease of 45%, compared to $53.6 million at March 31, 2010. This is directly related to our lease assets, and is as a result of our previously discussed strategy to reduce borrowings and utilize our cash.

Net earnings were $3.6 million in the fourth quarter or $0.42 per diluted share, as compared to $3.5 million or $0.42 per diluted share for the quarter ended March 31, 2010. During the fourth quarter, we recorded an additional tax liability of $401,000, related to the limited deductibility of certain reimbursed expenses on our consolidated tax returns.

As of March 31, 2011, we had $118.3 million in investment in leases net, compared to 156 -- excuse me -- $153.6 million at March 31, 2010. We continue to manage -- we continue to manage our leasing business to maximize returns, while maintaining our conservative credit culture, in order to optimize the businesses' margin, in light of the current leasing market and economic conditions. In addition, we are continuing to focus on the growth areas of the marketplace, including the healthcare and federal government contractor verticals.

We had cash and cash equivalents of $75.8 million at March 31, 2011, compared to $85 million in the prior year. We continue to manage the business to retain sufficient liquidity for working capital purposes, and to keep cash in reserve for opportunities such as acquisitions and share repurchases. We are cognizant that cash is a low-earning asset, and we strive to find conservative alternatives to increase our return, such as pre-paying vendors for discounts, minimizing non-recourse debt and other uses.

Shareholders equity was $212 million as of March 31, 2010 -- 2011, up from $185.5 million as of March 31, 2010. During the year ended March 31, 2011, we repurchased 134,888 shares of outstanding common stock at an average cost of $17.97 per share, for a total purchase price of approximately $2.4 million. As of March 31, 2011, our book value per share was $24.93, and tangible book value per share was $22.74. Yesterday's closing price for our common stock was $24.77 per share.

In summary, with a strong balance sheet and a scalable business model, we are well-positioned to take advantage of shareholder enhancing opportunities, such as the stock buyback, and the recent acquisitions of NCC and ITI. That completes our financial discussion. Operator, we'd like to open the call to questions.

## QUESTION AND ANSWER

**Operator**

Thank you.

(Operator Instructions).

Our first question comes from Matt Spratford with Sidoti & Company.

**Matthew Spratford** *- Sidoti & Company - Analyst*

Good morning, guys. I was just curious if you could comment on what you are seeing in the market currently? Is demand still at levels comparable to what you are seeing, this past fiscal year?

**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

We -- and I think our backlog is equivalent to what we had at this time last year -- or within a small range. We haven't seen the recession-type thought process that people have or capital -- spending. Now those things happen over time. But today, we still are seeing about the same level of activity.

**Matthew Spratford** *- Sidoti & Company - Analyst*

Okay. In terms of the (inaudible) Lawson injunction, I'm just curious on, if you had anticipated any revenue effects, or was that more of a strategic initiative?

**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

Well, that is pretty hard for us to determine that. That 's going to be done by the court. I think the good part about that is, the legal expenses will be significantly diminished for that lawsuit over the next 12 months. And so, that should help us immensely.

**Matthew Spratford** *- Sidoti & Company - Analyst*

Okay. And then, on the NCC acquisition, could you maybe give us a little more color on their operating histories, specifically the revenue and margins?

**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

I'll let Kley Parkhurst answer that question.

**Kley Parkhurst** *- Eplus Inc - SVP, Asst. Secretary*

Thank you, Matt. They are a run-rate company with managed services, and they had about $15 million in revenues, and their gross margin is higher than ours. But we are not disclosing any other information.

**Matthew Spratford** *- Sidoti & Company - Analyst*

Okay. Significantly higher, or I mean, ballpark?

**Kley Parkhurst** *- Eplus Inc - SVP, Asst. Secretary*

I really can't say at this time.

**Matthew Spratford** *- Sidoti & Company - Analyst*

All right, fair enough. And then, lastly, on just in terms of cost, how should we think about the integration of the acquisition? Is it going to significantly raise the cost base? Or are you looking to chop cost out of their business?

**Kley Parkhurst** *- Eplus Inc - SVP, Asst. Secretary*

No, it is a -- it will be an accretive acquisition. We don't expect there to be many cost savings. We do expect there to be some revenue growth over time, because they don't have the same (inaudible) -- they don't have the same ability to sell products and services that we do. So we think we'll be able to penetrate their customer base with our product sales, and then take what they do, and spread that to our customer base.

**Matthew Spratford** *- Sidoti & Company - Analyst*

Got you. Thanks, guys. I'll jump back in queue.

**Kley Parkhurst** *- Eplus Inc - SVP, Asst. Secretary*

Thank you, Matt.

**Operator**

Thank you.

(Operator Instructions).

Our next question comes from Patrick Retzer with Retzer Capital.

**Patrick Retzer** *- Retzer Capital - Analyst*

Hi, guys.

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**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

Hi, Pat. How are you doing?

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**Patrick Retzer** *- Retzer Capital - Analyst*

I'm doing well. Hi, congratulations on a great quarter. Without the additional legal fees, it looks like you guys would have had -- knocked the cover off the ball. I also noticed your effective tax rate for the quarter was significantly higher than a year ago. Do you have any explanation or comment on that?

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**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

Elaine will answer that.

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**Elaine Marion** *- Eplus Inc - CFO*

Hi, Pat. Yes, for the quarter-end, we had an adjustment for the annual period that was made of a $401,000 for some taxes that had a limited deductibility for prior years. So, that was the effect of the adjustment in the fourth quarter.

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**Patrick Retzer** *- Retzer Capital - Analyst*

So, there was a $400,000 catch-up, essentially?

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**Elaine Marion** *- Eplus Inc - CFO*

Correct.

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**Patrick Retzer** *- Retzer Capital - Analyst*

Okay. Okay, thanks. Keep up the good work.

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**Elaine Marion** *- Eplus Inc - CFO*

Thank you.

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**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

Thanks, Pat.

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**Operator**

Thank you. We have a follow-up question from Matt Spratford with Sidoti & Company.

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**Matthew Spratford** *- Sidoti & Company - Analyst*

Hi, guys. Just a little more on the NCC. I was just curious, like strategically, where do you see that fitting in long-term?

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**Phil Norton** *- Eplus Inc - Chairman, CEO and President*

Well, if you look at where we are today, I think we -- have become an aggregator, and integrator. And in order to have the capabilities to fulfill that for our customers, and to be competitive in the larger, enterprise-class customers, you have to have security, and a security operations center. The people that we have acquired, are extremely proficient in those areas. We will be able to take that, and put that out to all of our customers, and will enable us to give a more complete product and services set to our customer base.

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**Matthew Spratford** - ***Sidoti & Company - Analyst***

All right. Thanks. I appreciate it.

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**Elaine Marion** - ***Eplus Inc - CFO***

Thanks, Matt.

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**Operator**

Thank you. I am showing no further questions in the queue at this time.

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**Phil Norton** - ***Eplus Inc - Chairman, CEO and President***

Thank you very much. We appreciate the opportunity to discuss our Company with you. Bye.

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**Operator**

Thank you. Ladies and gentlemen, this does conclude our conference call for today. Thank you for your participation. Everyone, have a wonderful day.